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## **Dominican Republic Food Processing Ingredients Sector Annual 2006**

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**Report Highlights:**

The AgOffice estimates that the DR food-processing sector imported over US\$400 million in 2005. The United States currently holds a 50% share of this market. Though the US faces strong competition from Central and South America, food processors in the DR generally see U.S. suppliers as a reliable source, in terms of volume, standards and quality. The pasta, meat and dairy products, edible oil, beer, juice, and soft drink sectors all continue to show strong potential. Factors influencing demand in this sector include increased investment due to DR-CAFTA and strong growth in the tourist and HRI sectors. The data in this report is based on GODR customs' information and AgOffice and industry estimates.

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[DR]

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## SECTION I. MARKET OVERVIEW

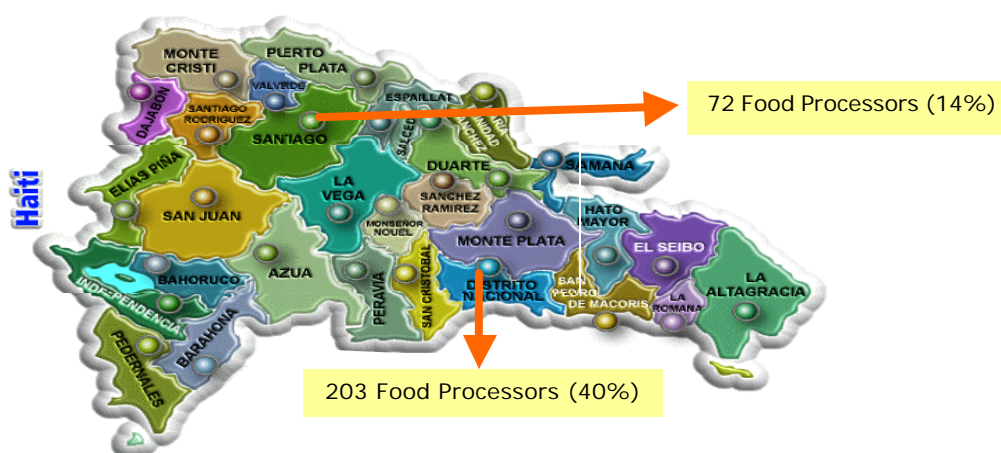
The Dominican Republic (DR) is the largest democratic country in the Caribbean, with a population of 9.1 million. The per capita income was estimated at US\$3,200 in 2005 with half the population less than 25 years old. GDP growth was estimated at nine percent in 2005 and forecasted at eight percent for 2006.

After maintaining an annual growth rate of over seven percent, the Dominican Republic's economy succumbed to a terrible crisis in 2003. The quick recovery has surpassed everyone's expectations and most sectors, including food processing, have responded positively due to the confidence placed by the Dominican people on the new Government officials.

The Dominican Republic is a food deficit country and despite trade liberalization, local production is protected with non-tariff barriers such as import permits and domestic price quotas for products such as dairy and meat products, beans, rice, sugar, chicken and pork. The protected products usually are priced significantly higher than in the world market, leading to non-competitiveness in the dairy, bean, and rice sectors as examples. The DR-CAFTA agreement allows a tariff rate quota (TRQ) regime for the currently protected products for a period of five to twenty years.

U.S. agricultural, forestry and seafood product exports to the Dominican Republic reached \$567 million in 2005 and further growth is anticipated in 2006. U.S. imports of DR agricultural products were valued at US\$260 million in 2005.

The Dominican Republic has great potential in the food-processing sector, which has been expanding rapidly, increasing the demand for imported ingredients. According to the Industrial Directory of the Dominican Republic, compiled by the Central Bank in 2004, there are approximately 510 food processors in the country. 40% of the food processing companies are located in the city of Santo Domingo (the Capital of the country) and 14% are located in the city of Santiago (the second largest city) the remaining 46% are scattered all over the rest of the country. There are about 100 major food-processing companies in the country.



Source: Central Bank's Industrial Directory of the Dominican Republic.

No official data is available, but it is estimated that the food-processing sector has a three percent share of the GDP. The fastest growing sectors in 2005 were dairy products (22.3%), beer (16.4%), edible oils (14.9%) and noodles (10%). The meat-processing sector also continues to show growth.

Imports of raw materials for the food processing industry were estimated at approximately US\$400 million in 2005; the United States supplies over 50% of raw material imports to the Dominican Republic.

The Central Bank of the Dominican Republic divides the food processing industry into nine (9) main categories: sugar; rice; fruit and vegetables; edible oil; meat and dairy products; flour, pasta and bakery goods; chocolate and sweets; snacks, seasonings and tomato paste; and alcoholic and non-alcoholic beverages.

Some of the advantages and challenges confronting products from the United States in the food processing market in the Dominican Republic are the following:

Advantages	Challenges
When DR-CAFTA is implemented, many food ingredients will enter the DR duty free.	Some of the high volume ingredients will have to pay duties for 15 or 20 years and will be subject to tariff rate quotas.
Food processors in the DR generally see U.S. suppliers as a reliable source, in terms of volume, standards and quality.	Globalization has increased competition from other regions, such as South America and Europe.
A continued massive rural-urban migration, increasing female workers and school-attending children, resulting in increasing demand.	Low consumer purchasing power.

## SECTION II. ROAD MAP FOR MARKET ENTRY

### II.a Entry Strategy

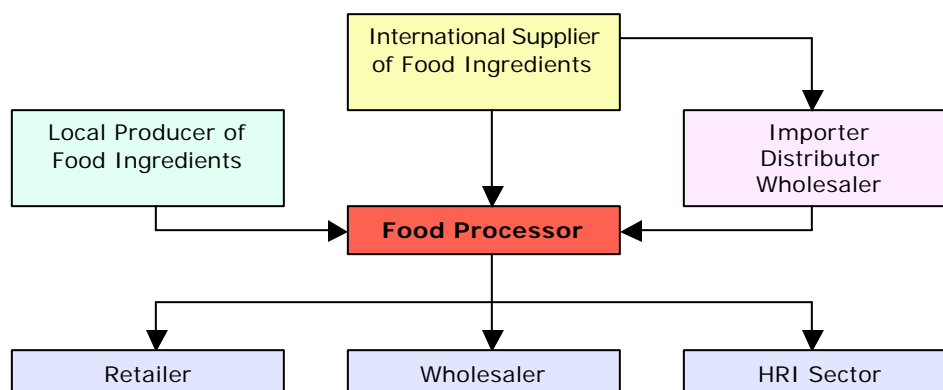
The best way to successfully enter this market is through personal visits and local representatives. While most processors are also importers, many suppliers also have local representatives. These representatives have direct contact with the processors.

It is recommended that U.S. companies know their representatives, importers, agents, or distributors well before reaching a permanent legal agreement. They should know the market and key contacts. They also need to be familiar with local laws and business practices. The office of the US Department of Agriculture in Santo Domingo has updated listings of potential importers, and can provide this information to suppliers wishing to explore opportunities in the Dominican Republic.

### II.b Market Structure

Most ingredients used in the food industry are imported directly by food processors that have close relationships with suppliers from the United States. In some cases other agents are involved in the distribution system as shown in the illustration that follows.

### Main Distribution Channel



Some processors are vertically integrating their operations, acquiring ingredients produced locally, such as: milk, vegetables, fruit, nuts, cocoa, sugar, beef, pork meat, etc. Some processors produce some of the inputs use in their food processing plants or buy them directly from the local market. In some cases, they have agreements with producers or producer associations. In addition to buying their products, they provide financing and technical assistance.

Food processors supply wholesalers, which sell to Mom and Pop stores known as "colmados" and to small supermarkets. Processors also supply colmados, supermarkets, hotels, restaurants, and cafeterias. The largest processors have direct distribution systems and strive to be as close as possible to the end consumer.

### II.c Company/Sub-Sector Profiles

The following table lists some of the largest food processors in the Dominican Republic. It includes information about the kinds of products they process, the final use of their products and the channels that they use to buy imported ingredients.

PROFILES OF MAJOR FOOD PROCESSING COMPANIES		
Company Names (Product Types)	End-Use Channels	Procurement Channels
INDUVECA (meat products)	Retail and HRI	Direct
Sigma Alimentos - Procesadora de Carnes Checo (meat products)	Retail and HRI	Importers, Direct
Productos Chef (meat products)	Retail and HRI	Direct
Agrocarnes (meat products)	Retail and HRI	Direct, Importers
Sigma Alimentos - Productos Sosua (dairy products)	Retail and HRI	Importers, Direct
Pasteurizadora Rica (dairy products)	Retail and HRI	Direct
Parmalat Dominicana (dairy products)	Retail and HRI	Direct
Nestle Dominicana (dairy products, )	Retail and HRI	Direct
Bon Agroindustrial (fruit juice, ice cream, marmalades)	Retail and HRI	Direct
Grupo Malla (wheat flour, pasta, snacks)	Bakeries and Retail, HRI	Broker, Direct
Molinos Valle del Cibao (wheat flour, pasta)	Bakeries and Retail, HRI	Broker, Direct
Mercasid (edible oil, margarines)	Retail and HRI	Importer, Direct
La Fabril (edible oil, margarines)	Retail and HRI	Importer, Direct

PROFILES OF MAJOR FOOD PROCESSING COMPANIES		
Company Names (Product Types)	End-Use Channels	Procurement Channels
Victorina Agroindustrial (canned fruit and vegetables, ketchup, seasonings)	Retail and HRI	Importers, Direct
Baltimore Dominicana (ketchup, seasonings)	Retail and HRI	Importers, Direct
Productos Jajá (canned fruit and vegetables, ketchup, seasonings, sausages)	Retail and HRI	Importers, Direct
La Famosa (concentrated juice, tomato paste, canned vegetables, ketchup)	Retail and HRI	Importers, Direct
Cervecería Nacional Dominicana (beer)	Retail and HRI	Importer, Direct
Ambev Dominicana (beer, sodas, bottled water)	Retail and HRI	Importer, Direct
Refrescos Nacionales (sodas, bottled water)	Retail and HRI	Direct
Barcelo & Cia. (rum)	Retail and HRI	Direct
Bermudez & Cia. (rum)	Retail and HRI	Direct

Company data is difficult to obtain. The data below is estimated from the Dr Customs Office and industry sources.

### Sugar

Dominican sugar production is estimated at 520,000 metric tons for 2006. The two largest private producers, Central Romana and the Vicini group, are expected to produce almost 450,000 metric tons with other mills accounting for the remainder. Production levels for the out year MY2007 will remain at the current level. Domestic sugar consumption is fairly stable at 330,000 metric tons, 55-60% raw and the rest refined. The general public consumes sugar mostly in raw form, while the soft drinks and juices and confectionary industries primarily use refined sugar. With refined sugar production at 148,000 metric tons for MY2005, the country's total refined sugar needs are met and no imports are anticipated. If production and/or consumption levels are not met in MY2006, imports will be required. (See Post's Report #: DR6009)

### Rice

Post estimates production for 2005 at 275,000 metric tons and consumption at 340,000 MT. With a smaller rice crop in 2005, imports of 45,000 metric tons were needed to meet normal market requirements. Current Dominican prices at the wholesale level for the two higher-quality rice varieties called "selecto" and "super selecto" are in the range of US\$ 0.60-0.75 per pound. Retailers in turn sell it at about US\$ 1.00-1.20 per pound. The landed cost of higher-quality imported milled rice from the United States is US\$ 0.18-0.23 per pound (the current exchange rate is RD\$33 to US\$1). Rice imports are managed under a tariff quota system, and import permits are required. (See Post's Report #: DR5002)

### Dairy Products

In 2005, the DR produced 436 million liters of milk. According to statistics provided by the Central Bank, 69 million liters were pasteurized and sold at the retail level at an average price of US\$1.45. The Dominican Republic's produces around 35,000 MT of cheese, 5,000 MT of yogurt and 10,000 MT of butter. Imported milk powder, whey, butter oil and milk protein concentrate (MPC) are the main inputs in this sub-sector. Imports of these three products in 2005 were valued at US\$19.2 million; US\$6.2 million were imported from the US. Milk imports are under a tariff rate quota and imports of only 32,000 MT are allowed. Local dairy processors are lobbying to increase the quota to 42,000 MT.

**Meat Products**

The market for meat products in the DR is estimated at about 55,000 MT. Mechanically deboned meat (MDM) from chicken and turkey, and pork trimmings and fat are the basic inputs in this sub-sector. Imports of these three products in 2005 were valued at US\$5.3 million. Imports from the US totaled US\$5 million. Imports of the inputs above-mentioned are controlled by the government and subject to the issuance of import permits.

**Fruit Juice/Fruit Juice Concentrate**

The DR's demand for imported fruit juice concentrate and premix was estimated at 3,000 MT in 2005. Local brands dominate the market and Bon Agroindustrial and Rica are the largest food juice processors. Beverage bases/pre-mixes, nutrients and additives such as flavors, colors, vitamins, sugar, emulsifiers, etc are also essential inputs, their total imports for 2005 were estimated at US\$10.77 million, 96% came from the US. Domestic fruit juice production was estimated at 35 million liters in 2005.

**Pasta/Flour/Bakery Goods**

Current local pasta production is approximately 41,830 MT per annum (valued at approximately US\$40 million). 74% is produced locally and 26% is imported. The average consumption per person is about 10 pounds a year. Wheat is the main input in this sub-sector and, according to statistics provided by the USDA; US\$69.2 million were imported from the US in 2005, for a market share of 99%. The DR's Central Bank estimated that 113,000 MT of flour was used in 2005 to process bread and other bakery goods.

**Vegetable Oils/Fats**

Total domestic consumption of edible oils (soybean, sunflower, corn and palm) in 2005 was about 167,000 metric tons. The larger processor MERCASID controls approximately 71 percent of the market; LA FABRIL in Santiago has quickly gained over 20 percent of the market and "Cesar Iglesias" the remaining eight percent. The estimated overall oil processing capacity exceeds 175,000 metric tons. In 2005, imports of soybean oil were estimated at 123,000 MT, sunflower oil 10,700 MT, corn oil 1,400 MT, palm oil 12,000 MT and coconut oil 400 MT. In the case of soybean oil, price has been the most important consideration dictating the source of imports. Because of the lower Argentinean prices, the industry generally imports South American oil, but the US still supplies around 43% of the soybean oil imported into the DR. (See Post's Report #: DR6005)

**Alcoholic Beverages**

In 2005, processors in the DR produced 50 million liters of rum and 454 million liters of beer. The DR imported US\$10.5 in barley and malt in 2005, 90% of it was supplied by the US. The Cerveceria Nacional Dominicana is the largest beer producer in the DR; they are currently exporting US\$25 million a year of Presidente, their premium brand, to the US.

**II.d Sector Trends**

A main focus of the country's local food processing industry is to improve processes and become more efficient to compete at the international level.

Many factors have influenced the food processing industry in the Dominican Republic. Imports of consumer-oriented products have grown and as a result the local consumer is more educated and is demanding products with more quality. The HRI sector also has grown significantly over the last few years and demands high quality products.

Another factor that is influencing the sector is the recently negotiated DR-CAFTA. Companies from other Latin American countries, which are not part of this free trade agreement, are starting to invest in food processing plants in the Dominican Republic to take advantage of

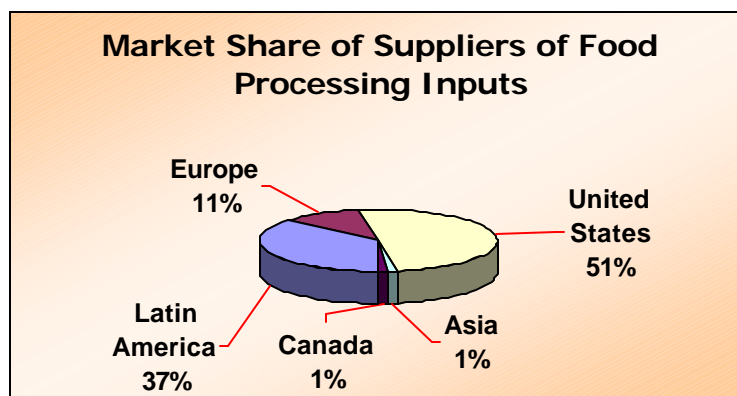


the treaty and the strategic position of the country. Sigma Alimentos from Mexico bought Productos Sosua and Productos Checo, two of the largest dairy and meat products manufacturers in the Dominican Republic. Also, the Brazilian Company, Ambev has installed a new brewery in Santo Domingo and has also acquired a major share of Embotelladora Dominicana, the local authorized Pepsi Cola and Seven Up bottler.

Many businesses in the food-processing sector have invested a lot of resources in new technology for the modernization not only of the production process, but also for distribution systems and marketing, information systems and the restructuring of the organizations. Also, some companies have expressed their interest in establishing Hazard Analysis and Critical Control Point (HACCP) systems. As mentioned above, some businesses have developed strategic partnerships with international companies aimed at strengthening local food processing technologies, diversifying product lines, assuring the supply of raw materials and ingredients, and taking advantage of the distribution networks of local businesses.

### Section III. COMPETITION

The largest competitors to the United States supplying raw materials to the Dominican Republic are Spain, The Netherlands, Venezuela, Canada and Chile. However, over 50% of the imported raw materials and ingredients for the food processing sector come from the United States. Dominican food processors generally perceive U.S. suppliers of food ingredients as a reliable source, in terms of volume, standards and quality.



Analysis of selected sub-sector ingredients, markets and sizes as well as competition are described as follows:

PRODUCT	TOTAL IMPORTS FOR 2005 (US\$ Millions)	IMPORTS FROM THE US (US\$ Millions)	US's MARKET SHARE	COMPETING COUNTRIES
Chicken MDM	1.35	1.33	98%	Canada
Turkey MDM	2.41	2.31	96%	Canada
Pork Trimmings	0.83	0.83	100%	None
Pork Fat	0.66	0.58	88%	Canada and Chile



PRODUCT	TOTAL IMPORTS FOR 2005 (US\$ Millions)	IMPORTS FROM THE US (US\$ Millions)	US's MARKET SHARE	COMPETING COUNTRIES
Powder Milk	11.98	4.03	34%	Poland, New Zealand, Ireland, Netherlands, Chile, Brazil, Argentina, Germany
Whey and Milk Protein Concentrate	5.05	1.73	34%	Germany, Canada, Netherlands, Ireland, New Zealand, Switzerland
Wheat	69.2	68.5	99%	Canada, Mexico
Concentrated Juice	2.25	0.52	23%	Germany, Argentina, Brazil, Chile, China, Colombia, Costa Rica, Cuba, El Salvador, Spain, Guatemala, Italia, Mexico, United Kingdom, Singapore, Switzerland
Butter Oil	1.52	0.11	7%	Germany, Belgium, France, Netherlands, Italy
Soy Bean Oil	44.48	19.23	43%	Argentina, Brazil
Barley Malt	10.6	9.5	90%	Germany, Belgium, Canada, Holland, Denmark, France

PRODUCT	TOTAL IMPORTS FOR 2005 (US\$ Millions)	IMPORTS FROM THE US (US\$ Millions)	US's MARKET SHARE	COMPETING COUNTRIES
Artificial and Natural Flavors	10.77	10.38	96%	Chile, Colombia, Costa Rica, Spain, France, Guatemala, Ireland, Mexico, Trinidad & Tobago
Other Products Used in the Food Processing Sector	1.75	0.90	51	Germany, Belgium, Chile, China, Colombia, Costa Rica, Denmark, El Salvador, Spain, France, Guatemala, Netherlands, Israel, Italy, Mexico, Poland, Switzerland

#### SECTION IV. BEST PRODUCT PROSPECTS

##### IV.a Products Present in the Market Which Have Good Sales Potential

Flour, pasta and bakery goods will remain important to the Dominican diet. Inputs use in the production of dairy products, edible oil, beer, juice, and soft drinks also continue to show strong potential.

##### IV.b Products Not Present in Significant Quantities but Which Have Good Sales Potential

Chicken MDM, turkey meat, pork trimmings and fat, and rice have excellent sales potential, but local production of such products is protected and imports are subject to permits, which are controlled by the Government.

**SECTION V. FURTHER CONTACTS AND INFORMATION**

If you have any questions or comments regarding this report or need assistance exporting to the Dominican Republic, please contact us at:

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The Foreign Agricultural Service home page at <http://www.fas.usda.gov> has useful information on how to export to the Dominican Republic, including some other related reports.